

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 2118 - SB 2619**

February 12, 2016

**SUMMARY OF BILL:** Repeals the Hall Income Tax (HIT) for tax years beginning on or after January 1, 2017. Authorizes local governments to levy an identical HIT, for tax years beginning on or after January 1, 2017, but prohibits such tax from exceeding 2.25 percent. Requires the Department of Revenue to collect the tax on behalf of each local government levying the tax, and to remit all revenue collected to the local government.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$166,310,800/FY17-18 and Subsequent Years**

**Decrease Local Revenue – Net Impact – \$90,864,200/FY17-18 and Subsequent Years**

**Other Fiscal Impact –** There could be a permissive and recurring increase in local government revenue if local governments elect to levy an income tax pursuant to this bill. Due to multiple unknown factors, the extent of any permissive increase in local revenue pursuant to the levy of a local tax cannot be quantified with reasonable certainty. In addition, the extent to which any permissive increase in local revenue will offset the mandatory decrease in local revenue is unknown.

**Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.**

**Assumptions:**

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given that the repeal is effective January 1, 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill will be FY17-18. This collection pattern is assumed to remain constant into perpetuity.

- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is \$270,000,000. This number is assumed to remain constant in subsequent years under current law.
- Based on the apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.
- The recurring decrease in HIT revenue, beginning in FY17-18, is estimated to be \$175,419,000 ( $\$270,000,000 \times 64.97\%$ ) for the state, and \$94,581,000 ( $\$270,000,000 \times 35.03\%$ ) for the local government.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in sales tax revenue for the state, beginning in FY17-18, is estimated to be \$9,108,194 [ $(\$270,000,000 \times 50.0\% \times 7.0\%) - (\$270,000,000 \times 50.0\% \times 7.0\% \times 3.617\%)$ ]. The total recurring increase in sales tax revenue for the local government, beginning in FY17-18, is estimated to be \$3,716,807 [ $(\$270,000,000 \times 50.0\% \times 2.5\%) + (\$270,000,000 \times 50.0\% \times 7.0\% \times 3.617\%)$ ].
- The net recurring decrease in revenue as a result of the HIT repeal, beginning in FY17-18, is estimated to be \$166,310,806 ( $\$175,419,000 - \$9,108,194$ ) for the state, and \$90,864,193 ( $\$94,581,000 - \$3,716,807$ ) for the local government.
- The Department of Revenue will not eliminate any HIT audit positions once state-imposed HIT is phased out. The proposed legislation requires the Department to collect the tax on behalf of each local government that elects to levy the tax.
- There could be a permissive recurring increase in local government revenue if local governments levy a HIT pursuant to this bill. Due to many unknown factors, such as the number of local governments that will levy the tax, the average tax rate levied, the taxable base of persons subject to the tax, and the timing of any such levy, a precise fiscal impact to local government statewide cannot be quantified with reasonable certainty.
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink, reading "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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